DOCUMENT RESUME

ED 228 523 CE 035 717

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TITLE Locating the Business. PACE Revised. Level 3. Unit 7. Research & Development Series No. 240CB7.
INSTITUTION Ohio State Univ., Columbus. National Center for Research in Vocational Education.
SPONS AGENCY Office of Vocational and Adult Education (ED), Washington, DC.
PUB DATE 83
CONTRACT 300-78-0032
NOTE 25p.; For related documents, see CE 035 672-729.
AVAILABLE FROM National Center Publications, Box F, The Ohio State University, 1960 Kenny Road, Columbus, OH 43210 (Complete set--$120.00; individual levels--$45.00 each; instructors' guides--$14.50 each; resource guide--$7.95; module sets--$35.00 each level; individual modules--$2.50 each).
PUB TYPE Guides - Classroom Use - Materials (For Learner) (051)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Adult Education; Behavioral Objectives; Business Administration; *Business Education; Career Choice; Competency Based Education; Contracts; *Entrepreneurship; Feasibility Studies; Individualized Instruction; Learning Activities; Learning Modules; Postsecondary Education; Retraining; *Site Analysis; Site Development; *Site Selection; *Small Businesses; Transportation; Units of Study
IDENTIFIERS *Program for Acquiring Competence Entrepreneurship

ABSTRACT

This individualized, competency-based unit on locating businesses, the seventh of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Four competencies are dealt with in this instructional unit, including (1) analyzing customer transportation, access, parking, and so forth, relative to alternative site locations; (2) completing a location feasibility study for one's business; (3) determining the costs of renovating or improving a site for one's business; and (4) preparing an occupancy contract for one's business. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately 3 hours of class time. (YLB)

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PACE
REVISED
Program for Acquiring Competence in Entrepreneurship

UNIT 7

☐ Level 1
☐ Level 2
☑ Level 3

Locating the Business

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Analyze customer transportation, access, parking, and so forth, relative to alternative site locations.**
- **Complete a location feasibility study for your business.**
- **Determine the costs of renovating or improving a site for your business.**
- **Prepare an occupancy contract for your business.**

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Research & Development Series No. 240 CB 7

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Levels 1 and 2:

   Level 1 -

   - Explain the importance of selecting the right business
   - Identify factors to be considered when selecting a business site
   - Determine advantages and disadvantages of different types of business locations (isolated, central business district, neighborhood, shopping center, etc.)
   - Describe terms of occupancy contracts for a business

   Level 2 -

   - Identify factors that should be considered when selecting sites for specific types of businesses (retail, manufacturing, wholesale, service)
   - Identify resources available to help entrepreneurs make site selections
   - Identify factors that should be considered when analyzing a geographic area as a possible location for a business
   - Determine the steps involved in selecting a business site
   - Discuss the factors considered in property appraisal

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   feasibility study
   industrial park
   urban renewal projects/revitalization projects
   zoning laws

LOCATING THE BUSINESS

WHAT IS THIS UNIT ABOUT?

The location of a business is a major factor contributing to its success. It is often a decision that is made only once in the lifetime of the firm. However, the dynamic nature of business in our economy requires periodic evaluation of the business location and alternative locations.

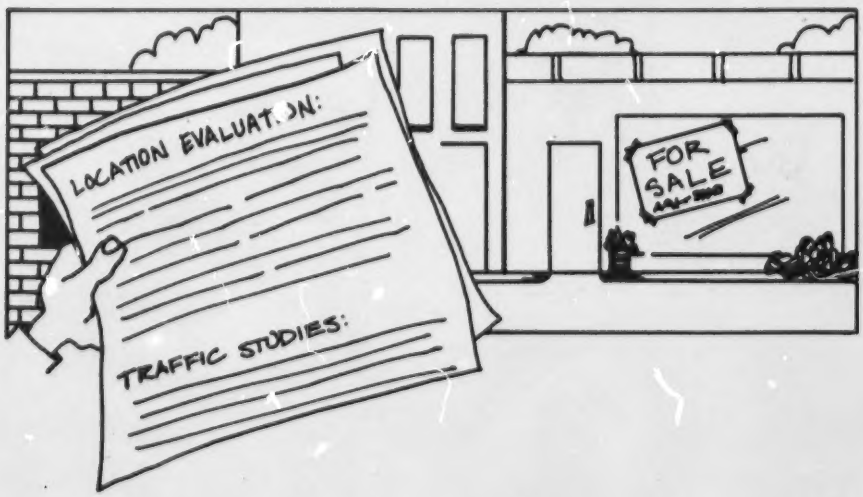
The focus of this PACE unit is on the evaluation of business locations. The establishment of strategic planning and operating policies are elements of this focus. Topics included in this unit are the importance of the business location, general location factors, specific location factors, types of business locations, steps in a feasibility study, and assistance available for evaluation and selection of a business site.

HOW IMPORTANT IS THE RIGHT BUSINESS LOCATION?

Studies have indicated that proper location of a business is a major success factor. Customer demand for your products and services is determined to a great extent by the location of the business. Businesses must be located near the customers. A poor location means you must attract customers by reducing prices, increasing promotions, or by some other costly practice that eats into your profits.

Location is an important factor in attracting customers to your business. When evaluating the location of your business, an important consideration is the nature of the business you operate. Although there are general factors to be considered for locating any business, the relative importance of these factors varies with the type of business operation.

Easy access and traffic patterns are prime considerations of *retail* establishments. Customers should be able to reach these firms from major roads. Ample parking should be available. Even the different pedestrian traffic patterns within a shopping center are important to owners of retail businesses.



Numerous studies of customer traffic patterns have been conducted for specific types of retail businesses. Anyone evaluating a retail business should examine these accessibility studies. Patterns that contribute to the success of theatres, service stations, drugstores, and apparel shops vary in important ways.

Different factors are considered when selecting sites for *wholesale* establishments. Rail, truck, and air carriers should have easy access. The wholesale establishment should be located near major highways or rail lines. Because of the nature of the facilities, equipment, and fixtures, the number of suitable sites is often limited by zoning laws and permits.

Closeness to a shopping center has its advantages for many *service* businesses, but customers are more prone to seek out and travel farther for some services. They will often go out of their way to visit a preferred dentist or a TV repair shop. So even among service firms, significant differences exist in the relative importance of the factors to be considered in site locations.

Manufacturing firms have the most restrictive zoning limitations. If you are evaluating a manufacturing site, check into zoning laws, shipping facilities, availability of appropriate buildings, distance from raw materials, and nearness to the potential market. All are important site considerations.

The choice of a business location is one of the most important decisions an owner of a small business makes. Many businesses are successful in one location for years, but due to the dynamic nature of our society in general and of business conditions in particular, periodic evaluations of the current and alternative locations are important. Technological improvements and the mobility of our work force are two examples of changes that can affect the suitability of a particular business site. The successful small business owner selects the best location available after considering all the appropriate factors.

WHAT GENERAL FACTORS SHOULD BE CONSIDERED WHEN EVALUATING A BUSINESS LOCATION?

When evaluating the location of a small business, three general factors should be considered: economics, population, and competition. These factors are used to determine an appropriate geographic area or city for the business.

Economics. A major concern in evaluating the location of a small business is the economic base of the area. The type of industry in an area will influence the economic conditions of the region. Agriculture, manufacturing, and commercial trade are major types of industry. The diversification of industry is an important consideration. Some areas are dependent on one industry while other areas have a balanced variety of business establishments. The future of the area should be studied in terms of the permanency and stability of the economic base.

The industrial base of an area is constantly being affected by numerous forces. The construction of new roads, the rise and fall of labor unions, the infusion of large amounts of money from government contracts or grants, and the availability of adequate venture capital at affordable rates will affect the quality of the industrial base.

A study should be made of the industries in the area and should answer the following questions:

- Are 80 percent of the townspeople dependent on one industry or business for their jobs? Or does the community have a diverse number of industries?
- Is industry in the area substantial and permanent?
- Is it seasonal in nature?
- Are more industries moving in or are many locating elsewhere?

You will need to analyze the impact these industrial conditions will have on your business.

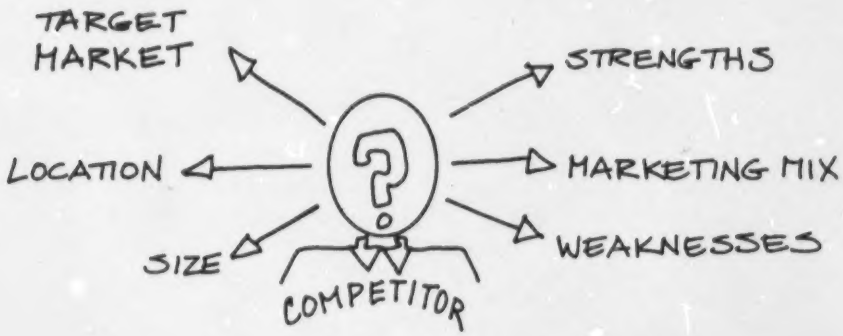
Other economic factors are important when selecting a geographic region. Transportation facilities, natural resources, and tax rates should also be studied.

Population. A second general factor that affects business location is the nature of the population. Because the income of individuals determines the demand for goods and services, owners of small businesses should gather information about the income patterns of the region. Population trends should be reviewed. The growth, decline, or stability of the population as well as the standard of living are items of interest. The age make-up of the area is another population consideration. Retirement communities will support different products than those purchased in university towns. Age and educational levels will affect the labor force available to small manufacturing firms.

Entrepreneurs should gather information about the population in the area selected. Specific questions to be answered include:

- What is the average income?
- Is there a mixture of income levels (low, medium, high) in the area, or is the area predominately one income level?
- What are the employment/unemployment trends?
- Do people own or rent their homes?
- What changes have occurred in the population?

Competition. The third general factor important to business location concerns the number and type of competitors or potential competitors. The number of competitors is important because an area can support only a limited number of competing businesses. If too many of the same type of business locate in an area, they may all have limited sales and several firms may not survive. An entrepreneur can determine if the competition is alert and progressive or just interested in maintaining the status quo by driving through the area and visiting a number of establishments. The presence of chain stores, franchises, and other regional or national firms should be noted. You should know not only how many competitors exist in your sales market, but also where they are located.



Competition is constantly changing. Mergers, failures, and changes in ownership will affect not only the appropriateness of your site, but also may make alternative sites more attractive. You should also find out how many businesses similar to yours have opened or closed in the past two years. Indirect competition providing similar kinds of goods and services should be analyzed.

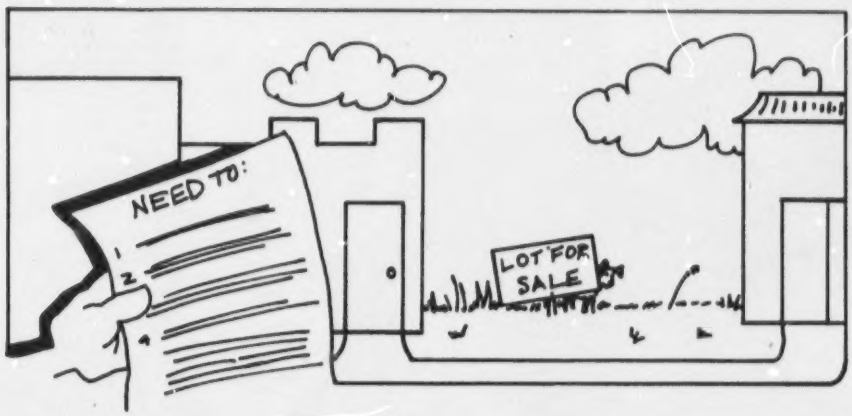
Investigating the competition in a geographic area is a vital step in the planning of a business location. Questions similar to those that follow should be answered.

- How large are the competitors?
- What do their customers think about the products or services offered by the existing establishments?
- What type of management—cooperative or cut-throat—exists in the area?
- If there is little or no competition, why not?
- What is the history of businesses like yours in the area?

The three general factors of economics, population, and competition are interrelated. For example, studies have indicated that a certain number of inhabitants are required to support different types of retail firms. The following table has been prepared by the Small Business Administration as a general guideline.

WHAT SPECIFIC FACTORS SHOULD BE CONSIDERED WHEN EVALUATING A BUSINESS SITE?

Once you have analyzed the general factors and selected a geographic area or city, you should evaluate the actual business site. The specific considerations vary with the nature of your business. However, you should analyze items concerning competition, traffic flow, transportation, parking, and zoning ordinances when evaluating the site of the business. The relative importance of these factors depends on whether you are considering a retail establishment, manufacturing firm, wholesale firm, or service business.



Retail Firms. The success of a retail store is ultimately tied to its ability to attract customers. The store must be located near its potential customers. The type of goods you sell determines how close you should be to your customers. Stores that sell convenience goods, like candy and cigarettes, need to be located in high traffic areas. Businesses selling shopping goods, like appliances and furniture, can be successful on secondary streets. Customers will make some effort to search them out. Specialty goods, like jewelry or health foods, can be sold by stores "off the beaten path." Consumers will spend quite a bit of time searching for the right item.

The compatibility of neighboring stores is another consideration. Some stores will not draw enough customers alone, so they should locate near stores that draw a similar clientele. Some stores are incompatible as neighbors. Studies have shown that clothing stores and service stations are not compatible neighbors.

Customers should face few problems in reaching your store. In evaluating locations, consider parking facilities, public transportation, and the volume of pedestrian and automobile traffic. Many entrepreneurs conduct a traffic study to determine the number and type of persons traveling a certain area of town.

You should consider several other factors. Zoning and other local ordinances, the cost of the site, and the general appearance of the area surrounding the site are important.

Wholesale Firms. These businesses sell to retailers or other wholesalers within the area. Prosperous retailers, a growing population, and a broad economic base are positive factors. When evaluating the alternative sites of the wholesale firm, accessibility to major highways or rail lines, local ordinances, and the cost of the site are important. Space for expansion and the quality of local services, such as fire protection and utilities, should also be studied.

In many areas, an old established wholesaling district may meet the needs of the firm. Recently, many wholesalers have located on the outskirts of towns near the interchanges of major thoroughfares. Careful analysis of location factors is necessary to choose the right location.

Service Firms. The location factors for a service firm are similar to those considered in locating a retail firm. Some services require the customer to be present at the firm, such as dry cleaners; other services are provided on the customer's premises, such as pest control or janitorial services. A location near the customers is most important for the first type of firm, but not the other.

Manufacturing Firms. Site location for small factories requires the analysis of many of the factors discussed for other types of businesses. Access to the market, transportation facilities, community services, and potential for expansion have been mentioned earlier. Additional

TABLE 1

NUMBER OF INHABITANTS REQUIRED TO SUPPORT VARIOUS TYPES OF BUSINESSES

KIND OF BUSINESS	NUMBER OF INHABITANTS PER STORE
Food Stores	
Grocery stores	1,534
Meat and fish (seafood) markets	17,876
Candy, nut, and confectionery stores	31,409
Retail bakeries	12,563
Diary products stores	41,587
Eating, Drinking Places	
Restaurants, lunchrooms, caterers	1,583
Cafeterias	19,341
Refreshment places	3,622
Drinking places (alcoholic beverages)	2,414
General Merchandise	
Variety stores	10,373
General merchandise stores	9,837
Apparel and Accessory Stores	
Women's ready-to-wear stores	7,102
Women s accessory and specialty stores	25,824
Men s and boy's clothing and furnishing stores	11,832
Family clothing stores	16,890
Shoe stores	9,350
Furniture, Home Furnishings, and Equipment Stores	
Furniture stores	7,210
Floor covering stores	29,543
Drapery, curtain and upholstery stores	62,460
Household appliance stores	12,585
Radio and television stores	20,346
Record shops	112,144
Musical instrument stores	46,332
Building Material, Hardware, and Farm Equipment Dealers	
Lumber and other building materials dealers	8,124
Paint, glass, and wallpaper stores	22,454
Hardware stores	10,206
Farm equipment dealers	14,793
Automotive Dealers	
Motor vehicle dealers—new and used cars	6,000
Motor vehicle dealers—used cars only	17,160
Tire, battery and accessory dealers	8,764
Boat Dealers	61,526
Household Trailer Dealers	44,746
Gasoline Service Stations	1,195
Miscellaneous	
Antique and secondhand stores	17,169
Book and stationery stores	28,584
Drugstores	4,268
Florists	13,531
Fuel oil dealers	25,425
Garden supply stores	65,118
Gift, novelty, and souvenir shops	26,313
Hay, grain and feed stores	16,978
Hobby, toy, and game shops	61,430
Jewelry stores	13,495
Liquified petroleum gas (bottled gas) dealers	32,803
Liquor stores	6,359
Mail order houses	44,554
Merchandising machine operators	44,067
Optical goods stores	62,878
Sporting goods stores	27,063

SOURCE: U.S. Small Business Administration. *Starting and Managing a Small Business of Your Own.* Washington, DC: U.S. Government Printing Office, 1973.

factors for small manufacturers include the quantity and quality of the labor supply, availability of raw materials, and community attitudes towards the business.

A careful analysis of these many factors are necessary for the selection of the proper factory site. The right site will minimize many of the problems faced by small manufacturers.

No matter what type of business you operate, the basic questions regarding location (including population, income, and competition), must be studied. In addition to the specific factors important in site selection, a number of other factors may relate to your business. The following questions will guide you in studying a community.

- What is the newspaper circulation? Are there concentrations of circulation?
- What other media are available for advertising? How many radio and television stations are there?
- Is the quantity and quality of available labor concentrated in a given area in the city or town? If so, is commuting common in that city or town?
- Is transportation available and adequate? Are transportation costs high?
- Is the city centrally located to your suppliers?
- What are the labor conditions, including such things as relationships with the business community, average wages, and salaries being paid?
- Is the local business climate healthy? Or are business failures especially high in the area?
- What about tax requirements? Is there a city business tax? Income tax? What is the property tax rate? Is there a personal property tax? Are there other special taxes?
- Is the available police and fire protection adequate?
- What is the community environment like? Do the schools have a good reputation? Are there service clubs? How active are these groups?
- Is the city or town basically well-planned and managed in terms of such items as adequate electric power, sewage, and paved street and sidewalks?

As you evaluate alternative business locations, it is important to consider future developments. Most information concerning general and specific location factors deals with past or present conditions. Today's society moves at a rapid pace. Electrical-mechanical cash

registers have been replaced by electronic models almost overnight. The use of mini- and microcomputers in small businesses is growing with breathtaking speed. To be successful, you must be future-oriented.

As you gather information on a alternative business locations, be sure to ask for future development plans. Many state and local government agencies have planning departments. The historical data you collect is also valuable. Study it closely to determine if trends are developing. With your information concerning future developments and trends, you will be prepared to make reasonable forecasts. Forecasts of three to five years are common and can be made with some confidence.

Remember, you are concerned not only with the future of the area, but also with the future of your business. The locations you study should be evaluated with a successful business in mind. Will the location support an expansion of your business? What size business can operate on the chosen site? The future is an important consideration when selecting a business location.

WHAT TYPES OF BUSINESS LOCATIONS ARE THERE?

As the process of evaluating alternative business locations proceeds, it becomes obvious that businesses tend to form clusters. This is natural, since many of the general factors and some of the specific factors apply to many different businesses. If a factor is conducive to one business, chances are that factor is conducive to similar businesses as well. Often these clusters occur spontaneously. Shopping centers and industrial parks are planned clusters.

Generally speaking, businesses will cluster into one of the following types of locations:

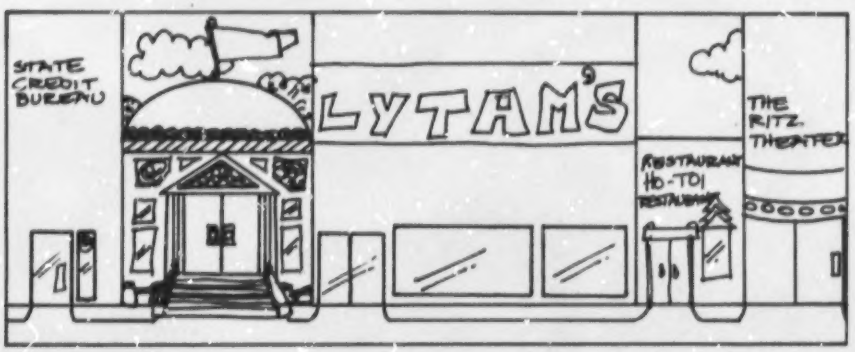
- Central Shopping Districts
- Neighborhood Shopping Areas
- Shopping Centers
- Industrial Parks

Central Shopping Districts. These are the main shopping districts in a city or town. They are generally located on the main thoroughfare and often include several city blocks. Government offices, financial institutions, and professional offices provide a market for the districts' retail and service establishments.

All types of consumer goods and services are available in this type of shopping location. However, major department stores provide the drawing power. Theaters, restaurants, and stores sell a variety of shopping goods and increase the customer traffic.

The major advantage of this kind of location is the drawing power of the numerous retail and service establishments. Pedestrian and vehicular traffic is heavy, making it a good location for stores selling convenience items. The advertising and sales promotions of the individual stores draw additional customers from a large trading area. Recently, through urban renewal and revitalization projects, the downtown areas of many cities and towns have been made more attractive.

A major problem in many central shopping districts is the deteriorating quality of life. High crime rates, vacant stores, and traffic congestion are unpleasant facts of life in many cities and towns. Other problems include high operating costs and heavy competition.



Neighborhood Shopping Areas. Scattered throughout cities and towns are small clusters of retail and service firms. These clusters are located along busy streets in areas having a high population density. Clusters of this type are known as neighborhood shopping areas.

Small branch stores of major department store chains often locate in these areas. Grocery stores, fast food establishments, and gas stations are very common. Bakeries, hardware stores, shoe stores, bars, and luncheonettes are also typically located in these areas.

These areas are attractive to small business owners because of lower rents and operating costs. Additionally, the personal contact with friends and neighbors is enjoyable and accounts for a great deal of repeat patronage. A well-balanced assortment of stores also tends to act as a drawing card.

The major drawback to these locations is that they draw customers from a relatively small trading area. Therefore, the shopping areas will support only smaller stores.

Shopping Centers. These business clusters are planned shopping areas. They have grown with the increased use of the automobile. Shopping centers are usually located on the outskirts of a city or town near a major highway. The three basic types of shopping centers are neighborhood, community, and regional.

Neighborhood centers, sometimes called strip centers, are designed to serve a trading area within a five-to-ten-minute drive of the center. A supermarket or chain drugstore is often the largest store in the center. The remaining stores in the center will sell convenience goods. Variety stores are very common in these centers.

Community centers attract customers willing to drive twenty minutes or so to the center. Very often a junior department, variety, or

discount store is the major business. This major store will serve to attract customers to the other stores in the center. A complementary offering of convenience and shopping goods, along with several service offerings, is commonplace. Drugstores, hardware stores, dry cleaners, and laundromats are typically located in these types of centers.

A regional center is usually an enclosed mall and has two or more major department stores as the primary customer attraction. Customers will drive from forty minutes away or even more. A wide range of services, convenience goods, and shopping goods are available. Chain stores and franchise outlets predominate. Banks, restaurants, and movie theaters will also be located in regional centers.

The major advantage of shopping centers is their ability to attract customers. This drawing power is enhanced by a planned tenant mix, pooled advertising and promotion programs, and ample parking. Shopping centers attempt to create an attractive and appealing overall atmosphere. Many centers sponsor promotional events, such as new car shows, to attract potential customers.

The cost of space in a shopping center can be high. Also, you will give up some of your independence, since most stores are required to maintain uniform hours. You may be limited in your advertising and promotional programs to insure they meet center standards. Maintenance costs are often beyond the control of client stores.

Industrial Parks. Industrial parks are to manufacturers and wholesalers what shopping centers are to retailers. Industrial developers provide the industrial firms with the location factors most sought after by these firms. Industrial parks are planned packages.

These parks are generally located on the outskirts of towns and cities. Major highways and rail lines are located close by or run through the park. Utility hookups for industrial use are in place and many areas offer tax savings to businesses locating in the parks.

HOW SHOULD A FEASIBILITY STUDY BE CONDUCTED?

When evaluating your current and alternative locations, two major concerns are market potential and availability of suitable premises. The following process is suggested for conducting a feasibility study.

1. **Select a general area for consideration.** Using personal information gathered from your experience and the knowledge of current business conditions, select two or three broad geographic areas that might have potential for a business of your type. Be sure to include the geographic area surrounding your present location, if any. These regions can be as large as an entire state.

2. **Survey several areas within a state.** As you consider general areas for business locations, several promising areas will become evident. These areas within the state should be surveyed to gather information on economic, population, and

competitive conditions. Market characteristics, such as the income, occupation, and education of the population, should be gathered. The permanency of the population and type of housing in the area should be determined. Factors such as availability of labor, market proximity, and transportation are important.

3. **Establish site selection criteria.** After one or two areas have been identified as promising, the evaluation of the market potential of specific sites within those areas should begin. Criteria for rating each site should be established at this time. The nature of your business—retail wholesale, service, or manufacturing—will determine the specific criteria chosen. Several of the items listed below should be considered.

   - Competition in the trading area
   - Compatibility of neighboring businesses
   - Neighborhood atmosphere
   - Site history
   - Accessibility to establishment
   - Traffic volume and type
   - Zoning restrictions

   A form similar to the one in table 2 can be used to list the chosen criteria, the weight of each item, and ratings of each location. The weights indicate the relative importance of each site criterion. Then each location (A-F) receives a rating of 1-5 for each criterion. This rating is multiplied by the weight of the criterion to obtain the scores. These scores are then added to give total score for each location.

   Use of a form of this type will aid you in making an organized comparison of the many factors involved in the evaluation of alternative business sites.

   The first three steps in this feasibility study are conducted to evaluate the market potential of various business sites. By careful analysis of the information gathered in these first steps, two or three promising sites, including your present location (if any), should be evident. The second phase of the feasibility study involves an analysis of factors in adapting or acquiring suitable premises.

TABLE 2

A WEIGHTED LOCATION RATING SHEET

Criteria	Weights	Alternative Locations					
		A	B	C	D	E	F
Trading area size	1	3	3	1	2	4	3
Competition	2	6	6	6	10	8	4
Volume of traffic	3	9	3	9	12	6	12
Demographics of community	3	6	3	9	12	3	9
Space for expansion	1	1	3	4	4	3	2
Parking facilities	1	2	5	3	4	3	1
Quality of life for me	3	12	3	9	12	15	6
Total Scores:		39	26	41	56	42	37

SOURCE: Burstiner, I. *The Small Business Handbook* Englewood Cliffs, NJ: Prentice-Hall, 1979, p. 65.

4. **Analyze the need to build or renovate.** If business has been good at your present site (if you have one), you have probably identified it as one of the most promising sites. However, during your analysis of market potential you may have uncovered a need to make major renovations of your property. You must then decide to build or renovate a structure.

   There are several advantages in building or renovating a structure. First, the building can be designed to fit your particular needs. Second, a new or renovated building is active to customers and projects the image of a progressive management. Third, tax advantages from depreciation allowances and investment tax credits are possible. Finally, you will be able to obtain money in the future by borrowing on the equity of the building you own.

   There are also disadvantages. The time it takes to build or renovate your structure will adversely affect your sales. Major construction and renovation projects involve many problems. Selection of dependable contractors and supervision of their work are but two of the many problems in these projects. Besides the time factor, acquisition of sufficient capital is a major problem. These are expensive projects, and most entrepreneurs must acquire outside financing that is costly and at times hard to obtain.

Determining the costs of building or renovating is a major task. Building permits and architectural fees may be necessary. The costs of materials, fixtures, and equipment must be carefully reviewed to obtain the best price. Labor costs can be substantial, so it is important to hire competent contractors. Financing costs can be high and should be watched. The loss of sales during a renovation is a cost that is often overlooked. Planning is very important in these projects to insure that unaccounted costs do not make the project more expensive than originally anticipated.

5. **Analyze the need to lease.** One or more of the sites you evaluated during the feasibility study may already have a suitable structure that the owner is willing to lease. Leasing a building is a common practice among business owners. When considering a lease, think these points:

- How much rent will you have to pay? Will the rental fee be a flat fee or will it be a percentage of sales?
- Does the owner restrict the use of parts of the facility, such as storage rooms?
- Does the owner restrict the use of the property to only certain activities? This might become important if you decide after one year to conduct cooking classes in your shop in addition to selling kitchen equipment.
- Who is responsible for maintenance? Is a maintenance fee charged?
- Should any improvements be made? If so, to whom do the additions belong? Who decides what improvements can be made?
- Could you sublease the property? If so, are there restrictions?
- What provisions are stated in the lease for renewal? Is renewal guaranteed as long as the lease agreement is followed?

  What types of insurance does the owner have? How much fire insurance does the owner have, for example, and what does it cover? Are you required to have certain types of insurance?
- How long is the lease? Can it be cancelled before it expires? Under what conditions can it be cancelled?

  These and other considerations should be specified in the lease agreement. Many potential problems can be resolved if a lease is properly drawn and executed.

6. **Review your analyses and decide.** After conducting all the appropriate steps in the feasibility study, you should carefully

review your analysis of each site. Compare the ratings with a perspective of the future. Which site is the most appropriate for you now, in five years, and in ten years? Although, you have used a rating scale, your decision must be made with less objective data than you may like. In today's business conditions, planning a year in advance is risky, and ten years in advance is almost pure speculation. But the assessment of future conditions may make the difference between selecting a good site and an excellent site.

WHAT HELP IS AVAILABLE FOR EVALUATING A BUSINESS LOCATION?

You must select your business location as a result of study and planning--not on a hunch. Selecting the correct site is a complex task requiring an extensive analysis of many factors. As previously discussed, these factors relate to the type of business, customers served, and types of goods and services sold. Therefore, conducting a comprehensive feasibility study is very important. In addition to conducting your own research, a great deal of free or inexpensive data are available, and many organizations are willing to assist in conducting the study.

An important step in conducting the study of a business location is assembling appropriate data. Many sources of free and inexpensive data are available, and a small business owner can conduct a preliminary feasibility study from these sources. The United States government is a valuable source, and publishes the following items:

- *Statistical Abstract of the United States.* This annual publication includes national demographic data on such items as population and income.
- *County and City Data Book.* Data for any city or county with a population over 25,000 are included in this source. Also in this book is information concerning the number of businesses, number of families, number of multifamily and single-family housing units, and average income.
- *The Survey of Current Business.* A useful monthly publication that includes monthly sales volume for various products and services, economic information (including unemployment data), and articles on subjects such as changes in consumer buying habits.

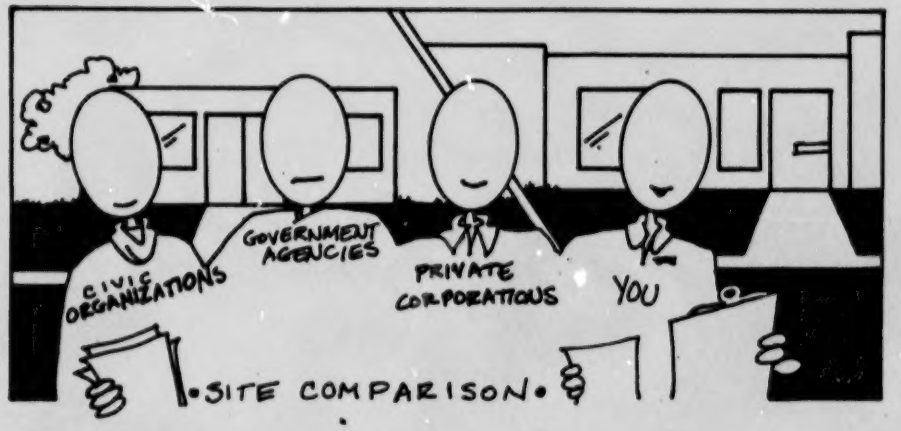
An additional source of information is provided by the "Survey of Buying Power," published yearly by *Sales and Marketing Management* magazine. This survey includes data on individual and family purchasing power for metropolitan areas of the United States.

Once a preliminary study has been conducted, additional information and assistance can be obtained from a variety of organizations. Some of these organizations will have economic survey results and other data such as traffic counts. Some agencies will also be willing to help you conduct your study by providing guidance or even doing some of the collection and analysis of the information. Contact the following agencies to obtain their services:

- Small Business Administration
- National or local chamber of commerce
- Trade associations (such as the National Retail Merchants Association)
- Planning commissions
- Manufacturers and wholesalers
- Neighboring businesses
- Bankers
- Consultants
- Local colleges

Once you have gathered sufficient data, the actual site comparison process can begin. The entrepreneur can conduct the study or employ the use of professionals. Many professional area development groups provide their services free of charge. These groups are generally one of three types: government agencies, civic organizations, or private corporations. The services provided include the following:

- Information such as wage and tax rates
- Contacts with influential and knowledgeable people
- Financial assistance arrangements for loans, grants, and bonds
- Projections of economic potential



Most states have economic development agencies, as do many local areas. For more information regarding these agencies, contact:

- National Association of State Development Agencies
  Hall of States, Suite 116
  444 North Capitol Street, N.W.
  Washington, DC 20001

or

- American Economic Development Council
  1207 Grand Avenue, Suite 845
  Kansas City, MO 64108

Evaluating and comparing business locations requires the review of many factors. Information for and assistance in evaluating business locations is abundant. An entrepreneur should use these resources in a reasonable, methodical way. The business location decision is important for you, as it may make you or break you. Periodic reviews of your location will ensure that your business is located appropriately.

ACTIVITIES

Do you feel you have gained some knowledge in evaluating the location of a small business? Do you understand the major factors to consider when conducting a feasibility study? The following activities are designed to help you evaluate your present location and to compare it with other possible locations.

INDIVIDUAL ACTIVITY

Using at least two business sites, conduct a traffic count to determine the accessibility of the sites. Owners of retail and service institutions should look for their type of customers, while wholesalers and manufacturers should be concerned with commercial traffic. Before the count begins, determine when—the time of day, week, or month—you are going to count, and the type of traffic—pedestrian, vehicular, or both—to be counted. Prepare a summary of your findings.

INDIVIDUAL ACTIVITY

Examine an existing business location with an eye to particular items in need of renovating or projects to improve the business site. Interview a number of employees, suppliers, and customers for their ideas. Compile a list of improvement projects, including the costs of materials, labor, and other expenses.

INDIVIDUAL ACTIVITY

If you own a business now, pull the lease for your premises from your files and review it carefully. Jot down any questions or concerns you may have. What items would you like to have included in the lease that are not present now? Review the lease with a lawyer to learn your full rights under the laws of your state. Prepare a revised occupancy contract to discuss with your landlord.

GROUP ACTIVITY

Assume you are an entrepreneur. Ask two small business owners to meet and discuss the possibility of conducting a preliminary feasibility study of your business locations. Each of you should take one of the general factors—economics, population, competition—and acquire information to share with the other two. After the general factors have been considered, each person can then conduct a study of the specific factors affecting their particular business. Information sources should be shared with one another as the studies progress.

CASE STUDY

Farm life is what Ted Sizemore enjoys. He has been working the family farm on his own for fifteen years. He has seen a lot of changes in farming and in the area. More and more of his friends have been selling off their small farms and going to work in the factories in town, ten minutes away.

Ted must admit that the living from his small farm is not what it used to be, and he has considered making the same move as his friends. But just the thought of being cooped up all day and punching a time clock makes him miserable. Besides, the income he is getting from the small nursery and garden center on the farm is approaching the amount of his farm income, and uses much smaller acreage.

Ted manages the care of the plants, trees, and shrubs, while his wife, Susan, is in charge of the customer orders and finances. Susan believes the potential of this business is great, and has been encouraging Ted to quit farming, expand the nursery, and open a retail center either in the nearby or in a city thirty-five miles to the south.

Ted is interested. He has spent some time analyzing conditions in the town and city. The town has a population of 5,000 and is the county seat and major retail area in the county. The Sizemore farm is just four miles from town on a main U.S. route. The Sizemores have many friends in the area, several who have purchased items from the nursery. With the decline in the number of small farms, light industry employs most people in the county. One of their friends, a farm implement dealer, has offered them half the square footage of his premises and outside display area on a lease basis, with very good terms. The dealer's business has declined with the demise of the small farms in the area. He is hoping that the Sizemore's new business would attract new customers to his business.

Ted and Susan also located an existing garden center in the city of 50,000 just thirty-five miles south of their farm. The garden center is now vacant, but with minor renovations to the structure and a sprucing up of the three acres of grounds, it would be very suitable for their needs. The largest manufacturer in the city has just announced the transfer of their facilities to a location in Alabama. Approximately 3,000 persons will become unemployed. The remaining industrial concerns are financially sound, although not prospering.

Ted and Susan have come to you. They have just about decided to get into the nursery and garden center business full time. However, they have questions concerning the location of the business.

- Should they try to operate from their farm, the town, or the city?
- What factors should be considered at each location? Are there general factors for all locations? Are there specific factors?
- How should they investigate their possibilities?

ASSESSMENT

Directions: Read the following assessment items. Answer each item to check your understanding of the topics presented in the unit. When you have completed the items, ask your instructor to check your answers.

1. List and explain at least two factors that demonstrate the importance of business location.
2. Explain the three general factors to be reviewed when initiating a feasibility study of business locations.
3. Describe the differences in evaluating locations for retail and service firms, wholesaling firms, and manufacturing firms.
4. Compare and contrast the five types of business locations.
5. Describe a six-step process for conducting a business location feasibility study.
6. Name at least five sources of information and assistance for business site evaluation.

NOTES

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U.S. Small Business Administration. *Starting and Managing a Small Business of Your Own*. Washington, DC: U.S. Government Printing Office, 1973.

For further information, consult the lists of additional sources in the *Resource Guide*.

Level 3

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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